OFFICE OF THE
PARLIAMENTARY
BUDGET OFFICER

BUREAU DU DIRECTEUR
PARLEMENTAIRE DU
BUDGET

CANADA

Status Report on Phase 1 of the Investing in Canada Plan

Ottawa, Canada
22 August 2018
www.pbo-dpb.gc.ca

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

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Executive Summary

At the request of the Senate National Finance Committee, the Parliamentary Budget Office (PBO) sent information requests to the 11 federal departments and agencies responsible for implementing the $14.4 billion Phase I of the Investing In Canada Plan (IICP). Federal organizations responded in June and July 2018, identifying total planned spending of $13.7 billion over 8 years.

The gap between the original budget and current planned spending is partially attributable to a recent federal decision to transfer $0.2 billion in spending from Phase I to Phase II of the IICP. It is also due to incomplete reporting by some federal departments (Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs).

Consistent with our previous findings, federal spending on infrastructure continues to be delayed compared to the original Budget 2016 timeline. In March 2018, PBO estimated that planned spending in the first two years of the Phase I IICP would total $6.2 billion; the current figure is $6.5 billion.

These spending delays are largely attributable to implementation delays by provincial and municipal governments. The federal government can only spend money as fast as provincial and municipal governments can invest it. PBO monitoring of provincial capital spending indicates that there have been significant downward revisions between what provinces originally said they would spend, and what they actually spent.

Based on the PBO's updated monitoring, we now believe that Phase I infrastructure investment in 2017-18 increased GDP between 0.13 and 0.16 per cent and created between 9,700 and 11,600 jobs.

1. Context

The Government announced in Budget 2016 its plan to invest more than $120 billion in infrastructure projects over 10 years.[1] The investments were stated to "boost demand in the short term and lay a solid foundation for long-term growth".[2] Projects were distributed nationwide via bilateral funding agreements with provinces.

Infrastructure projects were scheduled to be rolled out in two distinct phases:

- **Phase 1**: *Short-term investments.* Funding to rehabilitate and modernize public transit, water and wastewater systems, improve affordable housing and mitigate existing infrastructure from the negative impact of climate change. Infrastructure investments were principally focused over 2016-17 and 2017-18.[3]
- **Phase 2**: *Long-term investments.* Funding for strategic investments focused on clean energy, improving trade facilitation and the creation of the Canada Infrastructure Bank.

Since its announcement in Budget 2016, there have been delays in implementing Phase 1. The initial spending plans for Phase 1 provided by Finance Canada to the Parliamentary Budget Officer (Table 1-1) indicated that the government intended to spend slightly over $10.2 billion in 2016-17 and 2017-18. Budget 2018 shifted $3.6 billion of planned short-term spending to future years.

These delays in planned spending were corroborated by a PBO survey of all federal departments and agencies responsible for implementing Phase 1. Our March 2018 report found that only about half of the overall budget had been allocated to specific projects.[4]

Table 1-1 Phase I Planned Spending in First Two Years by Investment Stream

$ millions	**2016-17**	**2017-18**	**Future Years**	**Total**
2016 Fall Economic Statement Allocation	**$3,885**	**$6,268**	**$4,245**	**$14,398**
Public Transit	$852	$1,696	$852	**$3,400**
Green Infrastructure	$874	$1,562	$2,621	**$5,057**
Social Infrastructure	$1,643	$1,679	$119	**$3,441**
Post-Secondary	$500	$1,250	$250	**$2,000**
Rural Broadband	$6	$81	$413	**$500**
Budget 2018 Allocation	**$2,794**	**$3,759**	**$7,845**	**$14,398**
Public Transit	$45	$210	$3,145	**$3,400**
Green Infrastructure	$356	$773	$3,928	**$5,057**
Social Infrastructure	$1,643	$1,694	$109	**$3,441**
Post-Secondary	$749	$1,001	$250	**$2,000**
Rural Broadband	$6	$81	$413	**$500**

Source: Finance Canada.

2. Phase 1: Spending

Following the release of the PBO's March 2018 report and testimony before various parliamentary committees, the Senate National Finance Committee requested that the PBO prepare an update of our infrastructure survey.

In May 2018, PBO requested financial data from 11 departments responsible for implementing Phase 1 projects. The requests sought details of all spending for Phase 1 programs funded through Budget 2016. To avoid discrepancies in data collection, Infrastructure Canada was consulted in the survey and independently received the same departmental responses.

Responses were received from departments and agencies that are responsible for all Phase 1 programs. However, Indigenous Services Canada (ISC) and Crown-Indigenous Relations and Northern Affairs (CIRNA) were unable to provide details of their planned spending.

Overall, the government was able to identify $13.7 billion in spending; roughly 95 per cent of the total Phase 1 budget. Part of the spending gap is attributable to a recent decision of the government to shift slightly over $0.2 billion of spending from Phase 1 to Phase 2.[5] The balance is due to the inability of ISC and CIRNA to report their planned spending (that is, from 2018-19 onwards).

Table 2-1 PBO Projection of Phase 1 Spending Profile

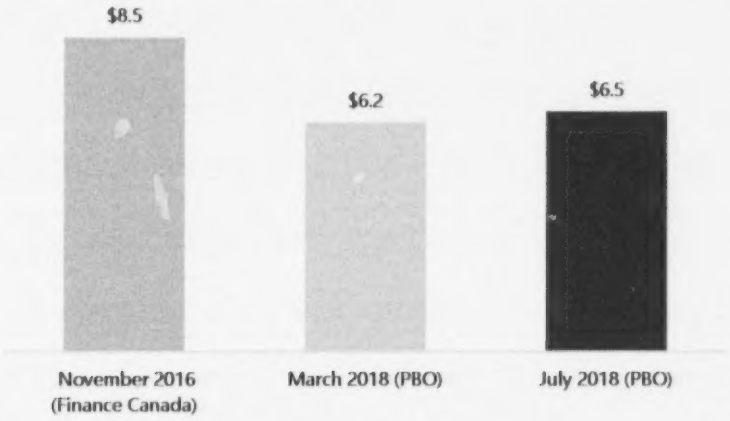
$ millions	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23*	2023-24	Total
July 2018*	$2,735	$3,756	$2,492	$2,982	$2,358	$53	$0	$21	**$14,398**
March 2018	$2,794	$3,423	$2,549	$3,202	$2,335	$85	$10	$0	**$14,398**
Difference	-$59	$333	-$57	-$220	$23	-$32	-$10	$21	

Sources: PBO and Infrastructure Canada.

Notes: Includes $247.5 million transferred from Phase 1 to Phase 2 of the IICP. Profiles for ISC and CIRNA are taken from data provided by Infrastructure Canada May 2018. 2022-23 figures for July 2018 are reported as $91,099. Profiles for CMHC were taken from data provided by Infrastructure Canada.

Figure 2-1 Phase 1 Spending in 2016-17 and 2017-18 (cash basis)

$ billions



Sources: PBO, Finance Canada and Infrastructure Canada.

Notes: Includes $247.5 million transferred from Phase 1 to Phase 2 of the IICP. Profiles for CMHC were taken from data provided by Infrastructure Canada.

PBO estimates that spending in 2016-17 and 2017-18 was mostly concentrated in the Social Infrastructure investment stream (Table 2-2).

Social Infrastructure dedicated just over $3.4 billion to a range of projects aimed at expanding affordable housing, improving early learning and child care, reducing homelessness and rehabilitating social and cultural infrastructure.

Roughly $2.9 billion has been spent to date on Social Infrastructure. An additional $350 million is expected to be spent this fiscal year.

Table 2-2 Phase I Spending by Investment Stream in 2016-17 and 2017-18

$ millions

Investment Stream	PBO Submissions
Green	$1,409
Public Transit	$282
Social	$3,294
Post-Secondary Institutions Strategic Investment Fund	$1,473
Rural and Northern Communities	$34
Total	**$6,492**

Sources: PBO and Infrastructure Canada. Social investment stream includes CMHC figures provided by Infrastructure Canada. Green investment stream includes $43 million from Phase 1 to Phase 2 transferred program.

Budget 2016 provided $5 billion in Green infrastructure funding, the largest allocation among the investment streams. Programs under Green Infrastructure seek to address climate change issues and move Canada to cleaner energy.[6]

In the first two years, the Green Infrastructure program has spent slightly over $1.4 billion.

The Public Transit investment stream is delivered through the Public Transit Infrastructure Fund. In total, $3.4 billion worth of investments have been made to modernize municipal transit systems, support capital projects and develop long term transit expansion plans.

Approximately $282 million was spent in 2016-17 and 2017-18 on Public Transit projects. Significant expenditures are expected to occur over the next 3 years, including $1.4 billion in 2019-20.

The Post-Secondary Institutions Strategic Investment Fund (PSISIF) dedicated $2 billion to modernize research and commercialization facilities at post-secondary institutions.

Over $1.4 billion has been disbursed from the PSISIF to date. The fund is projected to be fully disbursed by the end of the current fiscal year.

Budget 2016 funded the Connect to Innovate program under the Rural and Northern Communities investment stream. The program aims to provide 300 rural and remote communities with high speed internet. Approximately $34 million was spent in 2016-17 and 2017-18.

As indicated in previous testimony by the PBO to various parliamentary committees, spending delays are largely attributable to implementation delays by provincial and municipal governments. The federal government is only responsible for roughly 10% of total annual public sector capital investment; other orders of government are responsible for the balance. As such, the federal government can only spend money as fast as provincial and municipal governments can invest it.

PBO monitoring of provincial capital spending indicates that while investment likely increased over the past two years (roughly $6.0 billion), there have been significant downward revisions between what provinces originally said they would spend, and what they actually spent. These downward revisions would necessarily result in decreases in reported federal spending compared to originally budgeted amounts.

Provincial capital spending plans have been revised downward compared to original figures published in budgets (Figure 2-2). In 2016-17 provincial capital spending totalled $50.6 billion. In revisions to budgets later that year, capital spending declined to $46.7 billion. Similarly, budgeted provincial

capital spending totalled $57.0 billion in 2017-18 but was subsequently revised to $52.6 billion.

Figure 2-2 Provincial Capital Budgets

$ billions

Source: Provincial Budgets.

Note: The provincial budgets for Quebec, Saskatchewan, and Nova Scotia do not provide revised amounts for the previous years; therefore, an assumption was made to set the revised amount equal to the original amount.

Subnational incremental spending impacts the magnitude of job creation and economic growth benefits due to infrastructure investments. Downward adjustments to provincial capital plans during Phase 1 could partially offset federal capital increases and likely diminish the magnitude of economic gains. Studies in the United States have noted that for each dollar transferred from the federal government to states for infrastructure, state budgets for infrastructure only increase by 67 cents.[7]

3. Phase 1: Economic Impact

As part of its ongoing economic and fiscal analysis, the PBO actively monitors the roll-out of the IICP to determine the timing and impact of the planned stimulus program on the Canadian economy. Budget 2016 committed $8.5 billion (cash basis) in infrastructure spending over 2016-17 and 2017-18.[8]

Our March 2018 report estimated $6.2 billion of spending in 2016-17 and 2017-18. PBO most recent data shows $6.5 billion worth of spending over those 2 years.

To provide parliamentarians with an independent and updated estimate of the economic impacts of Budget 2016 infrastructure investments, we have simulated our economic and fiscal model with the new profile under alternative assumptions about the response of monetary policy (Table 3-1). Depending on the economic context, monetary policy may respond to new fiscal measures to prevent the economy from overheating and inflation rising above its target.

At the time of Budget 2016, estimates indicated that the Canadian economy was operating well below its productive capacity while the policy interest rate was close to its effective lower bound. Thus, it was unlikely that the Bank of Canada would respond to Budget 2016 measures over 2016-17 and 2017-18 by increasing its policy rate. Consequently, in our initial assessment of the economic impacts of Budget 2016 measures, we assumed no monetary policy response. This was also consistent with Finance Canada's assumption in its Budget 2016 economic impact assessment.

However, in the current context, with the economy operating close to its productive capacity and the policy rate well above its lower bound, monetary policy may respond to new fiscal measures, reducing their impact on the economy. Given these conditions and the uncertainty surrounding the nature of the monetary policy response, we have simulated the updated profile of Budget 2016 infrastructure spending under both assumptions.

Table 3-1 Phase 1 Economic Impact

Without Monetary Response

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Infrastructure spending ($ millions)	2,735	3,756	2,491	2,981	2,357	53	0
Infrastructure multiplier	0.9	1.0	1.2	1.4	1.5	1.5	1.6
Real GDP impact (%)	0.11	0.16	0.14	0.17	0.15	0.08	0.06
Employment impact (000s)	5.4	11.6	14.0	16.2	17.0	13.7	10.5
Full-time equivalent impact (000s)	8.3	16.9	19.2	22.1	22.7	17.1	12.7

With Monetary Policy Response

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Infrastructure spending ($ millions)	2,735	3,756	2,491	2,981	2,357	53	0
Infrastructure multiplier	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Real GDP impact (%)	0.1	0.13	0.08	0.1	0.08	0.0	0.0
Employment impact (000s)	5.1	9.7	9.8	10.3	9.8	5.8	3.1
Full-time equivalent impact (000s)	7.7	14.1	13.4	13.9	12.8	6.5	3.1

Source: PBO.

Based on the updated profile provided in Budget 2018, we estimate that Budget 2016 infrastructure spending raised the level of real GDP between 0.13 and 0.16 per cent in 2017-18, increasing the overall level of employment by between 9,700 and 11,600 jobs.

We estimate that Budget 2016 infrastructure investments will provide a modest boost to real GDP and employment over the remainder of the planning horizon. That said, under the assumption that monetary policy responds by raising interest rates, the impact on real GDP is fully offset by 2021-22.

Notes

1. **Budget 2016.** https://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf.
2. **Budget 2016.** https://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf.
3. **Budget 2016.** https://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf.
4. **Status Report on Phase 1 of the New Infrastructure Plan.** http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Infrastructure%20update/Status%20Report%20on%20Phase%201%20of%20the%20New%20Infrastructure%20Plan_EN.pdf
5. **Government of Canada media release June 2018.** https://www.canada.ca/en/office-infrastructure/news/2018/06/canada-helps-protect-communities-around-lake-manitoba-and-lake-st-martin-from-flooding-540-million-for-lake-manitoba-and-lake-st-martin-outlet-chan.html
6. **Investing in Canada Plan.** http://www.infrastructure.gc.ca/alt-format/pdf/plan/icp-pic/IC-InvestingInCanadaPlan-ENG.pdf
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